

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7199

BILL NUMBER: HB 1933

DATE PREPARED: Jan 18, 2001

BILL AMENDED:

SUBJECT: TRF contribution for teachers in new schools.

FISCAL ANALYST: James Sperlik

PHONE NUMBER: 232-9866

FUNDS AFFECTED:

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill provides that the state shall fund: (1) any unfunded accrued liability in the retirement allowance subaccount of the Pre-1996 Account of the Teachers' Retirement Fund (TRF); and (2) the unfunded accrued liability in the retirement allowance subaccount of the Pre-1996 Account of the Fund includes liability for a member who served in a position covered by the fund from before July 1, 1995, until the date, after June 30, 1995, the member was hired by another school corporation or institution covered by the fund or rehired by a prior employer.

Effective Date: July 1, 2001.

Explanation of State Expenditures: Assuming the unfunded actuarial accrued liability attributable to service accrued under the Pre-1996 Plan for re-hired 1996 Plan members is approximately \$255.9 M, the estimated fiscal impact would be as follows:

	Closed (Old) <u>Plan</u>	1996 (New) <u>Plan</u>	<u>Total</u>
Increase in Unfunded Actuarial Accrued Liability (UAAL)	\$255.9 M	\$(255.9) M	-
Increase In Employer Contribution Rate as % of Payroll:			
Normal Cost	0.0%	0.0%	
UAAL (40 year amortization)	<u>0.3%</u>	<u>(1.7)%</u>	-
Total	0.3%	(1.7)%	
Increase in Payout First Year	\$0.7 M	\$(0.7) M	-
Increase in Payout Second Year	\$1.1 M	\$(1.1) M	-

Background: Legislation passed in 1993 requires the TRF to maintain two separate accounts: the Pre-1996 (or Closed Account) and the 1996 Account. This legislation provided that, effective July 1, 1995, liabilities for members hired or rehired after June 30, 1995, are to be funded on a level percent of payroll basis and accounted for separately from the pre-July 1, 1995, hires. The legislation did not provide a methodology for handling the existing accrued liability of members who were originally members of the Pre-1996 Plan. When an original member of the Pre-1996 Plan was re-hired by another school corporation, institution, or prior employer, the member's accrued liability from the Pre-1996 Plan would transfer to the 1996 Plan, resulting in significant actuarial losses to the 1996 Plan.

The data used for valuation purposes does not separately identify re-hires or the service accrued under the Pre-1996 Plan. The unfunded liability attributable to Pre-1996 Plan service was estimated. Approximately 80% of the total 1996 Plan actuarial accrued liability for the period 1996-1998 was attributable to re-hired members with past service credit earned in the Pre-1996 Plan. The schedule below shows the computed 1996 Plan accrued liabilities for new hires and transfer members (re-hires):

1996 Plan Actuarial Accrued Liability (AAL) by Type of Member

Valuation <u>Date</u>	New Hires <u>Number</u>	<u>AAL</u>	Re-Hires <u>Number</u>	<u>AAL</u>	<u>Number</u>	<u>Total</u>
6/30/96	7,434,	\$3,101,942	1,250	\$31,575,366	8,684	\$34,677,308
6/30/97	17,510	\$17,890,302	3,177	\$112,252,429	20,867	\$130,142,731
6/30/98	21,924	\$44,389,600	3,728	\$178,828,515	25,652	\$232,218,115
6/30/99	14,566	\$60,935,670	6,819	\$311,047,492	21,385	\$371,983,162

1996 Plan "Allocation" of Assets by Type of Member

Valuation Date	New Hires Pay	Assets	Re-Hires Pay	Assets	Pay	Assets
6/30/96	\$32,727,903	\$2,823,692	\$39,778,349	\$3,431,989	\$72,506,252	\$6,255,681
6/30/97	\$142,473,535	\$15,075,211	102,694,406	\$10,866,159	\$245,167,941	\$25,941,370
6/30/98	\$252,679,983	\$38,776,942	\$143,077,904	\$21,957,116	\$395,757,887	\$60,734,058
6/30/99	\$277,080,884	\$58,422,648	\$261,756,220	\$55,191,435	\$538,837,104	\$113,614,083

"Allocated" 1996 Plan Unfunded Actuarial Accrued Liability (UAAL)

Valuation Date	New Hire UAAL	Re-hires UAAL	Total
6/30/96	\$278,250	\$28,143,377	\$28,421,627
6/30/97	\$2,815,091	\$101,386,270	\$104,201,361
6/30/98	\$5,612,658	\$156,871,399	\$162,484,057
6/30/99	\$2,513,022	\$255,856,057	\$258,369,079

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: School Corporations.

Information Sources: Denise Jones and Brian Dunn of Gabriel Roeder Smith & Co., actuaries for the Teachers' Retirement Fund, 1-800-521-0498.

DEFINITIONS

Unfunded Actuarial Liability sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Normal Cost--The normal cost is the current value of benefits likely to be paid on account of members' service being rendered in the current year.

Amortization Paying off an interest-bearing liability through a series of installments as opposed to paying it off by one lump sum payment.